Annual report | 1976

London Life Insurance Company | Head Office | London Canada

London Life

Facts at a glance

102nd Annual Report of London Life Insurance Company
for the year ended December 31, 1976

	1976	1975	% Increase
New life insurance issued	**$ 3,495,320,167**	$ 2,610,495,697	33.9
Individual policies	**2,146,983,332**	1,922,233,865	11.7
Group policies	**1,348,336,835**	688,261,832	95.9
Life insurance in force	**$21,861,629,754**	$18,946,859,463	15.4
Individual policies	**15,240,942,640**	13,753,748,851	10.8
Group policies	**6,620,687,114**	5,193,110,612	27.5
Increase in insurance in force	**2,914,770,291**	1,989,591,743	46.5
Number of life insurance policies in force — individual	**1,751,723**	1,714,997	2.1
— group	**5,512**	4,856	13.5
Life insurance premiums	**$ 251,757,133**	$ 227,532,095	10.6
Annuity premiums	**$ 65,045,717**	$ 55,002,433	18.3
Health insurance premiums	**$ 60,269,316**	$ 52,380,253	15.1
Dividends to policyowners	**$ 61,639,476**	$ 57,047,239	8.0
Total benefits to policyowners and beneficiaries	**$ 264,572,019**	$ 235,949,034	12.1
Total assets	**$ 2,624,668,062**	$ 2,392,255,810	9.7
Net earnings on investments	**$ 193,046,463**	$ 165,903,300	16.4
Rate of return on investments (life branch excluding segregated funds)	**7.89%**	7.51%	
Earnings per share credited to shareholders' account	**$3.49**	$3.22	
Dividends per share	**$2.24**	$2.20	

Contents

London Life Insurance Company

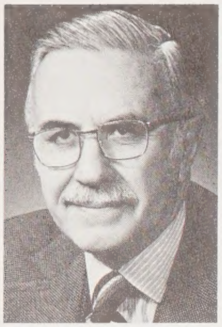
Incorporated by special act under the Laws of Canada

Head Office: 255 Dufferin Avenue, London, Canada

Pour recevoir ce rapport annuel en français, il suffit d'en faire la demande.

Directors

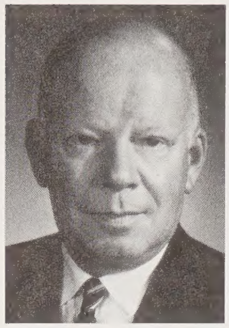
*Member of Executive Committee



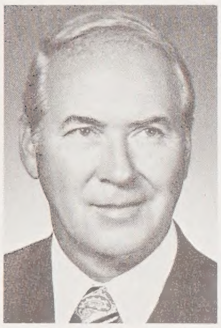
Joseph Jeffery,
O.B.E., C.D., Q.C., LL.D.*
Chairman of the Board

Alexander H. Jeffery, Q.C.*
President

M. C. Pryce*
Executive Vice-President



Albert W. Anderson
Director



Alex E. Barron
Chairman
Canadian Tire Corporation Limited

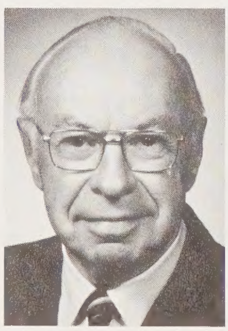
John B. Cronyn
Director
John Labatt Ltd.

Gordon D. Jeffery
Barrister & Solicitor

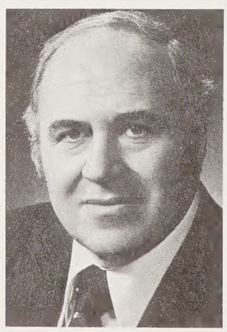
Allen T. Lambert
Chairman and Chief Executive Officer
The Toronto-Dominion Bank

John H. Moore,
LL.D.
Chairman
Brascan Limited

Donald Smith
President
Ellis-Don Limited



J. Allyn Taylor*
Chairman
Canada Trust



John J. Wettlaufer,
LL.D.
Dean
School of Business Administration
University of Western Ontario

Officers

Chairman of the Board
Joseph Jeffery, O.B.E., C.D., Q.C., LL.D.

President
A. H. Jeffery, Q.C.

Executive Vice-President
M. C. Pryce

Vice-President and General Manager
D. S. Rudd

Vice-President and Treasurer
G. L. Corneil

Vice-President and Executive Director of Marketing
D. E. Creighton

Vice-President and Chief Actuary
L. B. Fewster

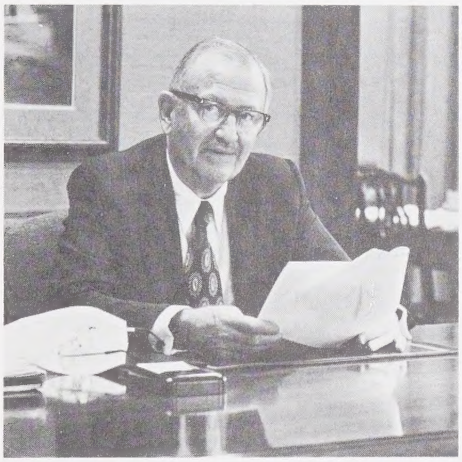
Vice-President, Group
R. G. Mepham

Vice-President and Executive Secretary
W. L. Pollard

Secretary
H. M. Ballantyne

Report of the Chairman and the President

Joseph Jeffery



Alexander Jeffery

Great progress has been made during the past year in reducing the rate of inflation. However, Canada still has its share of economic and political problems. For example, overall reserves of conveniently located oil and natural gas have declined in recent years. During 1976, we imported more oil than we exported. Over the long run, we have every reason for optimism: Canada has great amounts of oil in tar sands, heavy oil accumulations in Alberta and Saskatchewan, natural gas and oil in the Arctic, plus coal and uranium. Moreover, alternate sources such as solar, wind and thermal power can and must be developed.

But these projects will take many years and huge capital investments. Clearly, present government policy holding Canadian oil and gas prices below world levels encourages consumption — a luxury we cannot afford. Instead, we urgently need a national energy policy that encourages Canadians to eliminate waste and conserve precious non-renewable resources, and that creates a stable investment climate both at federal and provincial levels. Rationally, no one can expect private industry to invent the necessary technology or invest the required capital unless opportunities for earning profits are unmistakable. And surely, with all the experience of recent years, virtually no one would suggest government — rather than private industry — could efficiently undertake such a gigantic investment task.

Another uncertainty in recent months has been confederation itself. We recognize the Quebec people have valid concerns — about the growing power of the federal government, and its use of taxes to enter provincial jurisdictions indirectly, for example. We also believe the Quebec people are such valued and highly respected partners that the continuing survival of confederation is in the best interests of Canadians in both Quebec and the other provinces. With this in mind, we firmly believe all Canadians should become more fully aware of the value of remaining in confederation. The fact that English-speaking Canadians and French-speaking Canadians have survived together for well over a century gives us every reason to expect that with continued goodwill, logic and vigor, we can together find solutions for the serious problems we face.

Our operations continue to expand

London Life has played an active role in Quebec for well over half a century. The company intends to continue helping Quebec policyowners achieve their individual goals of financial security and to continue investing in projects that help expand Quebec's economic life. During 1977 the company plans to open a claims payment office in Montreal to more effectively administer Quebec group health insurance claims in both French and English.

In London Life's centennial year, we began steps to become fully licensed in Newfoundland and Prince Edward Island, the two remaining provinces in which we have not been active. In 1976, London Life became fully licensed in these provinces as well as the North West Territories. As a result, the company now is able to carry on business in all parts of Canada.

From time to time, London Life has considered the possibility of expanding into multi-national operations. But Canada still offers many substantial marketing opportunities and our decision has been that we have no intention of moving substantially into another major market at this time. However, during 1976 we began being represented in Bermuda by Harnett & Richardson Ltd. Our first individual insurance policies were sold in 1976 in this small but stable market. We expect to begin providing group life early in 1977 and some other group products by the end of the year. In this way, London Life will gain experience in a different currency and national environment and develop the necessary internal systems to cope with a multi-national form of operation.

"High staff morale must also receive much of the credit"

During the year London Life acquired full ownership of SDI Associates Limited, a Toronto-based marketing firm offering computer services in both Canada and Britain. As a subsidiary, SDI will use London Life's computer, nation-wide telecommunications system and professional staff to broaden the range of services for its clientele, primarily in the financial field. Sharing of costs of London Life's large computer operation, together with profits from this subsidiary, will enable us to lower the costs of servicing our own insurance and annuity policies.

In last year's annual report, we outlined how London Life is participating in two real estate consortiums in downtown Toronto. Response to the Chelsea Inn has been excellent in its first full year of operations; favorable acquisition and construction costs enable us to provide first class accommodations at modest prices. Meanwhile, plans for nearby Toronto College Street Centre Limited are moving ahead for the first phase of an upgrading which eventually will transform the site into a highly attractive area in which to work, shop and live.

Further improvements achieved in productivity

As outlined more fully elsewhere in this annual report, additional improvements were achieved in productivity at London Life and we would like to take this opportunity to thank our entire staff for their efforts in helping to make this possible. We would like to thank, too, our representatives and management staff in the District, General and Group offices across the country for their outstanding sales accomplishments during the past year.

Our increased effectiveness is possible, in part, because of our telecommunications network, which allows instant access to our central computer from all major centres across Canada. With this network, which was installed in 1975 and broadened in usefulness in 1976, we have been able to increase the speed and range of information readily available in regional offices and significantly improve the level of service, both to regional offices and policyowners.

High staff morale must also receive much of the credit for our increased effectiveness. Our turnover rate continues at exceptionally low levels. Our salary and benefit structure is comparable not only with other companies in the life insurance industry, but also with other industries in the communities in which we operate. Then, too, acceptance continues both for our flexible hours system and our job posting system, which provides more opportunities for promotions and satisfying careers within the company.

During the year R. G. Mepham was appointed vice-president, group, and a member of the management committee, following the resignation after 25 years of service of T. E. Reid. Appointments announced in 1976 to the administrative officer level were R. E. Brown, group administration executive; W. D. Jackson, director of marketing, group; and R. H. Hamill, who assumes his new position of claims executive with the retirement after 46 years of service of G. W. Morrow. J. A. Mereu, formerly actuary, product development, became group actuary. A. M. Bayly retired as group insurance actuary during 1976, after 38 years with the company. We wish to record our appreciation for the valuable services rendered by these executives over the years.

Legislation affecting the insurance industry

London Life is one of 17 life insurance companies whose actions on pricing and related matters are subject to control of the Anti-Inflation Board. We supported and followed the regulations during 1976. However, some philosophical problems in interpreting their guidelines were encountered when dealing with the AIB, particularly in the complexities of pricing group

"We were able to introduce improvements in the dividend scale"

insurance and our compensation system for salaried employees. Moreover, the AIB was delayed in reaching a decision about the pricing of individual life insurance products, where the annual premium is fixed but where the contract is based on estimates over many future years for interest, mortality and expenses. Because of the delay in development of these AIB guidelines on individual insurance, plans for new premium scales were postponed during the year. However, we were able to introduce improvements in the dividend scale for participating policies, as discussed elsewhere in this report.

We also were able to improve the shareholders' dividend for the final quarter of 1976, from 55 cents to 59 cents a share, within the limits currently allowed by the AIB. This dividend is subject to review at the annual meeting in March.

Another area of concern is the Borrowers' and Depositors' Protection Act. The aims of this proposed legislation are laudable. Unfortunately, one overall effect would be to make mortgages far less attractive for life insurance companies. For example, most of London Life's investments must be long term, in line with the guarantees we provide to clients. So if mortgages were redeemable at any time, as proposed by the legislation, we would reluctantly have to reduce our long-standing commitment to housing. An industry committee has made representations on this point and we hope the final legislation will recognize more clearly the mutual interests of mortgage borrowers and mortgage lenders.

During the year the Ontario legislature instructed the Select Committee on Company Law to review the insurance industry in Ontario. The committee is reviewing automobile and casualty insurance initially, and will follow with life insurance. Meantime, the Carruthers Report, commissioned by the Ontario government on insurance, has been referred to the committee. In one key proposal, the report recommends a total distinction between insurance company representatives and independent insurance brokers; generally, the industry feels this proposal is unworkable. The report also recommends improvements in disclosure, particularly of contract terms and policy costs; the industry is already working on this area. For example, eight years ago London Life pioneered a "data page" for policies, summarizing the provisions of the contract, providing financial facts, and pointing out the location in the policy of detailed information.

The Ontario government proposed last spring to increase the premium tax from 2% to 3%. However, after consideration of all the facts — including the discriminatory way this would affect buyers of permanent life insurance, together with retaliatory laws that would hamper the foreign operations of Canadian multi-national insurance companies — the increase will apply only to the insurance element of the premium on new policies. We hope the industry will have opportunities for further consultations on tax reform at both government levels, so that tax discrimination can be removed and a greater rationalization of the tax system obtained.

Joseph Jeffery

Chairman of the Board

Alexander H. [illegible]

President

Report of the Executive Vice-President and the Vice-President and General Manager

M. C. Pryce

D. S. Rudd

During the past year we increased our output, raised productivity, and offered our services to increasing numbers of Canadians.

By the beginning of 1977, we provided Canadians with a total of close to $22 billion of life insurance protection — an increase of 77% in just five years. As indicated later in this report, we provided more people than ever before with increased amounts of health insurance, pensions and annuities. Earnings on investments rose to the highest levels in this century, enabling us to further enhance our overall dividends to policyowners and thereby increase the attractiveness of our products.

The results of the past year reflect the continued confidence of policyowners and increased public awareness of the value of our services. They reflect, too, the efforts of our sales staff in 129 offices across Canada, together with employees both in head and regional offices.

Inflation, of course, tends to increase the costs of our operations. However, we took advantage of opportunities during the year to effect economies by further automating, consolidating our procedures and enriching the responsibilities of our staff. In this way, we were able to achieve through attrition an additional reduction of almost 2½% in home and regional office staffs during 1976, despite higher work volumes stemming from the increased size of the business.

12% rise in sales of individual life insurance

Sales of individual insurance policies reached a record $2.147 billion during 1976, up 12% over 1975. A total of 112,300 policies were issued, an increase of 1,600.

Trends were favorable, not only in the amount of insurance, but also in the size and type of policy. On insurance sold by our representatives, the average policy size rose substantially, from $17,500 to $19,600. Moreover, the average total premium per policy rose 11% to $227. The average annual premium per $1,000 of coverage fell slightly, from $11.65 to $11.58.

After taking into account death claims, matured endowments, surrenders and other terminations, the net gain for individual life insurance was a record $1.487 billion, $128 million more than in 1975. Industry studies show that London Life has the highest retention rate among all sizeable life insurance companies in North America. Credit for this goes to the sound practices of our representatives, who sell to meet the needs of clients and who — with the help of our head office and regional office staffs — provide policyowners with good, continuing service. This helps us retain our substantial market lead in the amount of individual life insurance provided for Canadians: $15.241 billion at the end of 1976.

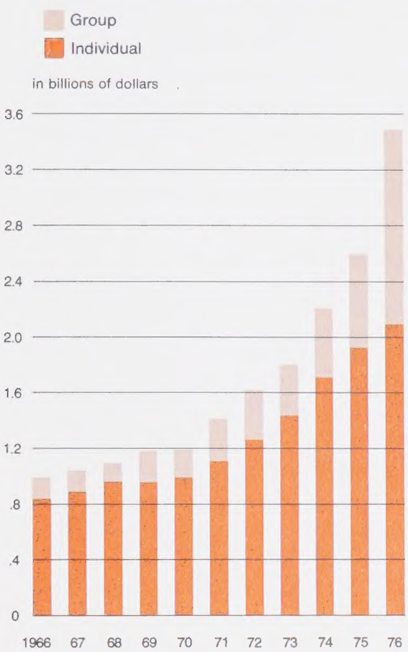
For many years we have strongly emphasized the development of our field personnel, both managers and representatives. During 1976, special training sessions were conducted for group managers and general sales managers. In addition, a series of marketing seminars began in 1976 for the district sales division and will be completed in 1977. All these measures will further improve our management capabilities and help us take advantage of future sales opportunities.

After doubling in 1975, sales of individual non-participating annuities rose a further 47% in 1976 to $15 million in premium volume. Many policyowners use these plans for income averaging, thereby spreading income tax over a period of years after receiving unusual lump sums or certain types of income.

Premiums of group benefits division reach $128 million

Premiums received during the year in the group benefits division, for health, life and pension coverage, rose 18% to $128 million. Group health — which fell substantially a few years ago with the entry of provincial governments into the medical services field — has recovered to the point where it now

Growth of New Life Insurance Issued



"The amount of group life insurance issued almost doubled"

accounts for $60 million in premiums received, approaching half this total. The balance is split about evenly between group life and pension.

At year end, London Life provided coverage through the health branch to 5,230 companies, up 15% from 1975. With a further computerization of health claims, we provided faster service, reduced processing time and improved productivity among the clerical staff.

By the beginning of 1977, annualized gross premiums in the health branch for disability income plans reached $44 million and long term disability payments were being provided to 2,250 people, up 10% over the previous year. London Life is devoting increased effort to counseling and rehabilitating these people, so that more may return to useful and productive lives.

Dental coverage is another high growth area, with annualized premiums rising from $7 million at the end of 1975 to $9 million at the end of 1976. Increased interest in dental plans is being expressed by companies and employees lacking such coverage.

The amount of group life insurance issued almost doubled during 1976 to $1.348 billion; about half this increase was accounted for by a single sale to a very large group. Recognizing the trend to lower mortality — and to strengthen our competitive position — we reduced our rates 10% late in 1976. By year end, group life in force reached $6.621 billion or 30% of our total life insurance — up from 27% at the end of 1975.

Our deposit administration contract, introduced at the end of 1975 for group pensions and deferred profit sharing plans, proved popular during the first year, and attracted $3.5 million in premium income. About half our sales in 1976 were based on this method of funding, while the other half involved the group annuity method. The new contract has proven especially attractive at a time of fluctuating capital markets; capital is guaranteed while the contract is in force and each year's deposits are credited with new money interest rates.

As outlined in last year's annual report, early in 1976 London Life extended the benefits of life, health and disability coverage to firms with as few as five employees. Almost 230 smaller groups responded to such policies in the first year and we are now one of the most active insurance companies in this field.

Net interest earnings approach 8%

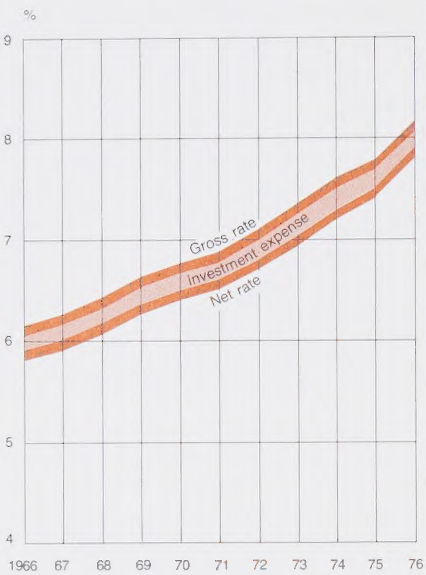
In the regular funds of the life branch, the net interest rate earned after investment expenses rose a record amount, from 7.51% to 7.89%, to reach the highest level of the century. As a result, our competitive position has further improved and we have increased the overall level of dividends to policyowners despite the increased cost of doing business in an inflationary environment.

The regular life funds reached $2.491 billion at year end, up $207 million. Meanwhile, the segregated funds of the life branch rose $16 million to $65 million, and the health branch $9 million to $69 million. Total assets reached $2.625 billion at year end.

New investments in mortgages and securities in the life branch amounted to a record $258 million. Of this total, $135 million was placed in mortgages at an average gross yield before expenses of 11.4%, a new high. By year end, the mortgage portfolio in the life branch reached $1.600 billion, 98% of which helps provide housing for Canadians.

The increase in invested assets was greater than expected, because of large increases in sales of annuities and permanent life insurance contracts with a high savings element. We were able to increase the level of new investment in bonds during the year to $121 million in the regular life branch — almost double the figure for 1975. These new investments, all of which are in high quality, long term bonds and debentures, provide an

Interest Rates Earned



"Studies show our mortgage collection experience is far superior"

average gross yield of 9.8%. Bond holdings now represent more than 25% of total invested assets, up from 19% at the end of 1975.

Of the $617 million in bonds in the regular life branch, none is in default on principal or interest. Of the 55,500 mortgage accounts, none was foreclosed during the year and only 50 at year end were in default on interest payments for three months or more. Studies show our mortgage collection experience is far superior to averages of the life insurance industry and indeed other industries, both in Canada and the United States.

Benefits to policyowners, beneficiaries surpass $264 million

Total benefits provided for policyowners and beneficiaries surpassed $264 million, an increase of $29 million over 1975.

Dividends paid or provided to owners of participating policies, and on experience-rated group health policies, approached $62 million, up $5 million. This includes provision for a new dividend scale in 1977 for individual insurance and annuities which will more accurately reflect current experience, including improved interest earnings, lower mortality and higher expenses. As a result, policyowner dividends will increase in some cases, decrease in others. The overall effect of the new scale will be to raise total dividends actually paid or credited in 1977 by $1.7 million.

Annuity payments rose during 1976 by $1 million to $33 million. Dividends for all participating annuities are being raised in 1977.

Interest on policy and contract funds rose $3 million to $19 million. Improvements in the interest rate for 1977, both for accumulated dividends and other funds on deposit, will increase interest payments by about $3 million in 1977 over the amount that otherwise would have been paid.

With the substantial increase during recent years in the amount of health insurance provided by the company — and with inflation pushing the cost of health care higher each year — health insurance claims rose 34% to $53 million.

Mortality experience fell to exceptionally low levels in 1976, both for individual policies and group coverage. However, with more people insured, the number of death claims increased 264 to 10,391. Payments rose $1 million to $55 million.

As in recent years, more than half the deaths were from heart disease and cancer. While motor vehicle accidents account for only 4% of all deaths — a small improvement over 1975 — they still are responsible for 33% of deaths in the 20 to 29 age group, and 55% of deaths at the 10 to 19 age level.

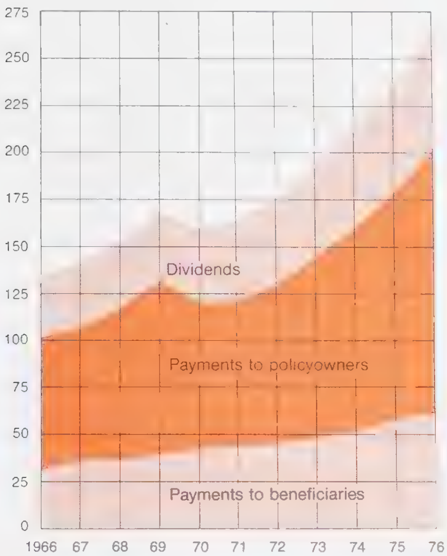
Mortality experience in the non-participating life branch continued to fluctuate. After unusually high mortality costs in 1975, the experience in 1976 was even better than the exceptionally good experience in 1974. Over the past two years, the mortality fluctuation reserve has been placed on an actuarial basis to smooth these fluctuations. The experience of 1976 gave rise to a $1.390 million increase in this reserve, thereby raising the total that can be drawn upon in years of poor experience. Compared to the participating life fund, the non-participating life fund has a relatively small number of policies; however, the average amount is much higher because of the use of substantial non-participating term policies in many business situations. This combination of fewer, but larger, policies gives a greater likelihood of considerable annual fluctuations.

Improvements in financial results

Because of the large increase in return on life branch investments — together with exceptionally low mortality — net earnings in both the participating and non-participating life branch improved. Particularly in the participating branch, earnings were depressed for several years because of the effects of inflation on expenses and heavy acquisition costs arising from

Benefits Paid to Policyowners and Beneficiaries

in millions of dollars



"Mortality experience fell to exceptionally low levels"

high sales. Our strenuous efforts at cost control in the last few years are showing good results, despite continuing inflation. Future productivity improvements will be more difficult to obtain from our current leaner operation. The increase in policyowner dividends led to an increase in the amount available for transfer to the shareholders' account, as described in Note 6 to the financial statements.

As discussed above, the new mortality fluctuation reserve will help moderate extremes of experience in the life non-participating operations. This reserve would protect the company against adverse effects on non-participating retained earnings, if we encounter consecutive years of poor experience.

In the health branch, our small profit of recent years turned into a loss, primarily because of experience in a very substantial health insurance policy.

Meeting the challenges of the years ahead

We look back on the achievements of the past year with a sense of pride and accomplishment.

Looking ahead, we are aware that population studies indicate the number of Canadians in the 20 to 39 age group — our prime market for life insurance — will increase more slowly than in the past. Nevertheless, over the next ten years this age group is expected to grow by two million people, thereby providing many sales opportunities. After that, unless Canadian immigration policies change, the number of people 20 to 39 years will decrease. At the same time, the over-40 group will grow more rapidly, thus broadening other opportunities, particularly in retirement planning.

Recognizing that we must more adequately anticipate future trends, not only in population but also in the economy, the management committee has begun work on the establishment of a more formal system of long range corporate planning. During 1976 much effort was devoted to articulating our company's philosophy and principles. In 1977 further work will be spent in developing appropriate targets and strategies for the following years.

One of our goals is to increase our share of the life insurance market — both individual insurance and group insurance — and to enhance our position of leadership in the industry. Then, too, we wish to ensure that we constantly strive to provide the best possible life, health and related services at reasonable prices, while maintaining awareness of our obligations to policyowners, staff, shareholders and the general public.

As we move forward to meet the challenges of the years ahead, we are conscious of the fact that we will be building on our strengths. In particular, with our three sales divisions — each with its own markets, strategies and approaches — we are well positioned to fully develop future opportunities for serving Canadians at all income levels.

Executive Vice-President

Vice-President and General Manager

Consolidated balance sheet

ASSETS	At December 31 1976	1975
The Company has the following assets to meet its obligations to policyowners:		
Bonds and debentures *Valued at amortized cost less write-downs.*	**$ 667,674,911**	$ 533,761,026
Stocks *Valued at cost less write-downs.*	**31,829,951**	30,455,116
First mortgages *Amount of loans outstanding.*	**1,608,904,870**	1,544,710,701
Real estate:		
Income-producing properties *At cost less accumulated depreciation of $4,669,600 ($4,871,029 in 1975).*	**7,112,902**	7,676,825
Head office premises *At cost less accumulated depreciation of $8,760,523 ($8,395,190 in 1975).*	**15,633,207**	15,592,404
Loans on policies *These loans are fully secured by the cash value of the policies on which the respective loans are made.*	**175,282,424**	158,519,658
Cash	**5,581,423**	7,048,630
Electronic data processing equipment *At cost less accumulated depreciation of $4,522,877 ($3,731,255 in 1975).*	**5,589,110**	5,037,350
Premiums in course of collection	**11,859,193**	13,979,123
Accrued investment income	**27,170,965**	22,182,065
Segregated funds investments (note 4) *For group pensions and individual equity contracts, valued at market.*	**65,214,352**	49,261,290
Other assets	**2,814,754**	4,031,622
Total assets	**$2,624,668,062**	$2,392,255,810

(The attached "Notes to consolidated financial statements" are an integral part of this statement)

AUDITORS' REPORT

To the Policyowners, Shareholders and Directors of London Life Insurance Company:

We have examined the consolidated balance sheet of London Life Insurance Company as at December 31, 1976 and the consolidated statements of income, and investment reserves and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances; the reserves and other liabilities under policy contracts were determined and certified by the Company's Chief Actuary.

LIABILITIES, INVESTMENT RESERVES, CAPITAL AND RETAINED EARNINGS	At December 31 1976	1975
The liabilities which the Company has assumed are:		
Policy reserves (note 2)	**$1,766,421,300**	$1,620,087,842
This amount together with segregated funds policy reserves, future premiums and interest earnings provides for the payment of benefits promised on all policies in force.		
Other obligations to policyowners:		
Dividends due and left by policyowners to accumulate	**267,434,395**	246,272,172
Proceeds of policies left on deposit for policyowners and beneficiaries	**14,754,147**	16,715,683
Provision for dividends payable to policyowners	**60,391,876**	54,546,368
Provision for unpaid and unreported claims	**65,369,157**	57,393,764
Premiums paid in advance	**8,602,487**	8,621,338
Staff pension and insurance reserves (note 5)	**172,428,352**	150,371,318
Prepaid taxes on mortgage accounts	**14,038,366**	12,910,462
Taxes, commissions, and other accounts due and accrued	**15,526,727**	8,629,724
Segregated funds policy reserves (note 4)	**65,214,352**	49,261,290
For group pensions and individual equity contracts.		
Other liabilities	**9,647,738**	11,809,035
	$2,459,828,897	$2,236,618,996
The investment reserves, capital and retained earnings provide additional security for policyowners and their beneficiaries:		
Investment reserves (note 3)	**$ 39,775,000**	$ 37,475,000
Capital stock:		
Authorized, issued and fully paid — 500,000 shares of $2 par value	**1,000,000**	1,000,000
Retained earnings:		
Life branch — participating	**73,851,493**	68,821,448
— non-participating	**44,537,850**	42,399,010
Health branch	**1,131,473**	2,020,707
Shareholders' account	**4,543,349**	3,920,649
	$ 164,839,165	$ 155,636,814
Total liabilities, investment reserves, capital and retained earnings	**$2,624,668,062**	$2,392,255,810

In our opinion, based on our examination and the certificate of the Chief Actuary, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations for the year then ended in accordance with accounting practices prescribed or permitted by the Department of Insurance of Canada.

CLARKSON, GORDON & CO.,
Chartered Accountants

London, Canada, February 9, 1977.

Consolidated statement of income

	For year ended December 31	
	1976	1975
INCOME:		
Premiums (note 7)	**$393,936,266**	$350,591,749
Investment income less investment expenses of $9,526,699 ($8,992,850 in 1975)	**193,046,463**	165,903,300
	$586,982,729	$516,495,049
DISTRIBUTION:		
For policyowners and beneficiaries —		
Benefits under life insurance policies:		
Death	**$ 55,422,235**	$ 54,535,355
Disability	**1,367,904**	1,306,315
Matured endowments	**6,648,696**	6,667,410
Cash surrenders	**33,742,920**	28,225,644
Annuity benefits	**32,941,955**	31,768,612
Health insurance benefits	**53,344,338**	39,870,013
Interest on policy and contract funds	**19,464,495**	16,528,446
Additions to policy reserves	**146,216,491**	130,935,912
Additions to staff pension and insurance reserves	**22,057,034**	19,156,559
Additions to segregated funds policy reserves	**15,953,062**	10,892,643
For operating expenses —		
New insurance and field service to policyowners	**61,511,328**	56,319,261
Head and regional offices	**49,295,704**	44,617,097
	$497,966,162	$440,823,267
Income from operations before dividends to policyowners and taxes	**$ 89,016,567**	$ 75,671,782
Dividends to policyowners	**$ 61,639,476**	$ 57,047,239
Premium taxes	**5,399,822**	4,611,028
Income taxes	**11,537,951**	6,591,318
	$ 78,577,249	$ 68,249,585
Net income	**$ 10,439,318**	$ 7,422,197
Analysis of net income:		
Investment reserves	**$ 2,300,000**	$ 1,500,000
Life branch — participating	**5,147,012**	2,559,931
— non-participating	**2,138,840**	1,512,349
Health branch	**(889,234)**	242,259
Shareholders' account	**1,742,700**	1,607,658
Net income	**$ 10,439,318**	$ 7,422,197

(The attached "Notes to consolidated financial statements" are an integral part of this statement)

CERTIFICATE OF THE CHIEF ACTUARY

Policy reserves for annual premium life insurance policies have been determined on the net level premium basis and are in excess of the minimum modified reserves permitted as an alternative for such policies under the Canadian and British Insurance Companies Act. The total policy reserves shown in the consolidated balance sheet at December 31, 1976, including such reserves in the segregated funds, are in excess of those required under the Act and, in my opinion, make good and sufficient provision for all unmatured obligations of the Company guaranteed under the terms of its policies. The reserves for and method of funding of the staff insurance and pension benefits have been determined using assumptions that are adequate and appropriate and methods consistent with the sound principles established by precedents or common usage within the actuarial profession.

L. B. FEWSTER, F.S.A., F.C.I.A.

February 9, 1977

Consolidated statement of investment reserves and retained earnings

For year ended December 31, 1976

	Investment reserves	Life branch participating	Life branch non-participating	Health branch	Shareholders' account (note 6)
Net income before transfers to shareholders' account	$ 2,300,000	$ 6,588,368	$ 2,238,840	$ (889,234)	$ 201,344
Transfers to shareholders' account		(1,441,356)	(100,000)		1,541,356
Net income	$ 2,300,000	$ 5,147,012	$ 2,138,840	$ (889,234)	$1,742,700
Shareholders' dividends					(1,120,000)
Increase in actuarial reserves due to changes in valuation basis		(116,967)			
	$ 2,300,000	$ 5,030,045	$ 2,138,840	$ (889,234)	$ 622,700
Balance, beginning of year	$37,475,000	$68,821,448	$42,399,010	$2,020,707	$3,920,649
Balance, end of year	$39,775,000	$73,851,493	$44,537,850	$1,131,473	$4,543,349

Notes to consolidated financial statements

1. Accounting principles

The accounts of the company's wholly owned subsidiaries, LONLIFE Data Services Limited and SDI Associates Limited have been consolidated in the accompanying financial statements.

The life and health insurance branches are combined in the accompanying financial statements which have been prepared in accordance with accounting principles prescribed or permitted by the Department of Insurance of Canada. The Department's requirements emphasize liquidity and solvency. Some of the more significant accounting practices are set out below:

(i) certain assets, such as office furniture and fixtures, amounts receivable from sales representatives and other non-admitted assets, are accounted for as expenses in the year acquired;

(ii) the costs of acquiring business are accounted for as expenses in the year incurred rather than over the periods expected to be benefited;

(iii) income taxes are calculated using the taxes payable method;

(iv) the Company has equity investments in the following Canadian real estate companies:

Toronto College Street Centre Limited
Seachel Accommodations Limited
Leaside Towers Apartments Limited

The investment in these companies is carried under the equity method as prescribed by the Department of Insurance of Canada;

(v) depreciation is provided as follows:

(a) electronic data processing equipment is depreciated on a straight-line basis at 12½% per annum;

(b) head office properties are depreciated at $400,000 per annum;

(c) under income-producing real estate — residential properties are depreciated on a declining balance basis at 5% per annum and commercial properties are depreciated on a sinking fund basis at various rates determined by the terms of the leases.

2. Policy reserves

The policy reserves are calculated on the net level premium basis. Under this basis, acquisition expenses are to be recovered throughout the premium period, whereas, as indicated in note 1 above, the costs of acquiring business must be accounted for as expenses in the year incurred. Net level premium reserves are in excess of the minimum modified reserves permitted by the Canadian and British Insurance Companies Act as an alternative to net level premium reserves for life insurance policies. Such minimum modified reserves would provide a partial deferral of the impact of the high first year expense through permitting a reduction from the net level premium reserve in the first year compensated for by an increase in the net premium required for the balance of the premium period.

Notes to consolidated financial statements (continued)

3. Asset valuation and investment reserves

The investment reserves amounting to $39,775,000 represent appropriations of earnings to provide for fluctuations in asset values.

At December 31, 1976, bonds and stocks are shown in the balance sheet at values which are not in excess of amortized costs, but in the aggregate exceed the values permitted by the Canadian and British Insurance Companies Act by approximately $16,900,000, provision for which is included in the investment reserves.

4. Segregated funds

The Company has four separate segregated funds, three for group pension and group deferred profit sharing plans and one for individual insurance policies. These funds have been set up in accordance with Section 81 of the Canadian and British Insurance Companies Act so that the Company may issue policies whose reserves vary in amount depending on the market value of a specified group of assets.

5. Staff pension reserves

Increased pension benefits for employees effective from January 1, 1973 resulted in an unfunded liability with respect to the plan to be amortized by special payments over 16 years to 1988. Based on the valuation of the plan performed in 1976 and after recognizing special payments made during the year, the outstanding unfunded liability of the plan has been reduced to $17,477,000 from $22,672,000 at December 31, 1975.

6. Shareholders' account

Distributions of earnings to policyowners and shareholders are determined by the Board of Directors. The shareholders' portion of the distributable earnings in the life branch participating account is limited to a maximum of 2½% by the Canadian and British Insurance Companies Act. This amounted to $1,497,589 in 1976 after dividends to participating policyowners of $58,405,990. During the years 1972, 1973 and 1974 an overstatement of distributable earnings in the life branch participating account resulted in

10 years of growth

(in thousands of dollars except per share calculations)

	1976	1975	1974
New life insurance issued	**$ 3,495,320**	$ 2,610,496	$ 2,207,821
Individual policies	**2,146,983**	1,922,234	1,703,819
Group policies	**1,348,337**	688,262	504,002
Total life insurance in force	**$21,861,630**	$18,946,859	$16,957,268
Individual policies	**15,240,943**	13,753,748	12,394,212
Group policies	**6,620,687**	5,193,111	4,563,056
Number of life insurance policies in force — individual	**1,751,723**	1,714,997	1,676,838
— group	**5,512**	4,856	4,517
Total assets	**$ 2,624,668**	$ 2,392,256	$ 2,187,981
Rate of return on investments (life branch excluding segregated funds)	**7.89%**	7.51%	7.30%
Retained earnings	**$ 124,064**	$ 117,162	$ 109,517
Premiums	**$ 393,936**	$ 350,592	$ 319,859
Total benefits to policyowners and beneficiaries	**$ 264,572**	$ 235,949	$ 212,857
Dividends to policyowners	**$ 61,639**	$ 57,047	$ 52,123
Earnings per share credited to shareholders' account*	**$ 3.49**	$ 3.22	$ 3.09
Dividends per share**	**$ 2.24**	$ 2.20	$ 2.00

*Commencing in 1969 the total earnings of the Company were subject to corporate income tax in accordance with new taxation regulations; therefore the amount transferred to the shareholders' account was not subject to additional tax. Previously, income tax was levied only on the earnings in the shareholders' account.

**In 1972 there was included a special dividend of $2.38.

an overstatement of the shareholders' account by $56,233. To rectify this overstatement, the transfer from the life branch participating earnings to the shareholders' account in 1976 has been correspondingly reduced. In addition, to the amounts credited above, the shareholders' account was credited with $201,344 of investment earnings and $100,000 was transferred from the life branch non-participating account.

7. Premiums

This income was derived as follows:

	1976	1975
Life Insurance —		
Participating	$223,178,134	$201,890,013
Non-participating	28,578,999	25,642,082
Annuities —		
Participating	13,565,643	14,050,101
Non-participating	48,869,072	38,615,284
Settlement	2,611,002	2,337,048
Health insurance	60,269,316	52,380,253
Staff funds —		
Life and health	3,517,773	2,862,317
Pension	13,346,327	12,814,651
	$393,936,266	$350,591,749

8. Anti-Inflation Program

As required under the federal government's Anti-Inflation Program presently scheduled to be in force to December 31, 1978, the company is of the opinion that it is in compliance with the regulations which control prices and profits, employee compensation and shareholder dividends.

9. Account classifications

The groupings of accounts for the 1975 year have been changed to conform with those adopted for 1976.

1973	1972	1971	1970	1969	1968	1967
$ 1,793,290	$ 1,622,372	$ 1,405,056	$ 1,193,396	$ 1,184,220	$ 1,093,467	$1,052,522
1,442,299	1,255,333	1,101,537	986,761	959,815	967,622	894,834
350,991	367,039	303,519	206,635	224,405	125,845	157,688
$14,995,521	$13,449,237	$12,353,618	$11,417,268	$10,820,297	$10,181,437	$9,443,271
11,162,969	10,138,817	9,350,581	8,780,956	8,369,438	7,948,408	7,405,714
3,832,552	3,310,420	3,003,037	2,636,312	2,450,859	2,233,029	2,037,557
1,639,161	1,600,562	1,573,539	1,557,762	1,553,214	1,548,500	1,521,600
4,343	4,223	4,265	4,208	4,148	4,051	4,002
$ 2,023,496	$ 1,868,813	$ 1,731,395	$ 1,628,857	$ 1,546,439	$1,484,929	$1,388,904
7.04%	6.81%	6.63%	6.52%	6.37%	6.18%	6.01%
$ 106,574	$ 108,062	$ 106,367	$ 103,279	$ 98,717	$ 94,435	$ 86,586
$ 285,101	$ 246,352	$ 222,468	$ 206,420	$ 206,473	$ 200,310	$ 188,282
$ 194,126	$ 174,119	$ 163,521	$ 159,469	$ 169,321	$ 152,456	$ 140,952
$ 49,864	$ 45,187	$ 42,416	$ 39,465	$ 36,858	$ 36,259	$ 34,931
$ 2.95	$ 2.74	$ 2.35	$ 2.22	$ 2.06	$ 1.11	$ 1.00
$ 1.80	$ 3.98	$ 1.40	$ 1.20	$ 1.00	$ .94	$ .88

Administrative officers

Actuarial
J. C. McKibbon
Actuary

I. R. Taylor
Actuary

G. G. Cameron
Research Actuary

Administration Regional Offices
R. L. Low
Administration Executive Regional Offices

Claims
R. H. Hamill
Claims Executive

Communication Services
J. B. Chick
Communication Services Executive

Comptroller
J. C. A. Macdonald
Comptroller

Group
R. E. Brown
Group Administration Executive

J. A. Mereu
Group Actuary

Information Systems
W. H. Thomson
Information Systems Executive

Insurance Services
S. P. Geddes
Insurance Services Executive

Marketing
D. A. Smith
Director of Marketing

T. Orr
Director of Consumer Affairs and Marketing Administration

District Sales Division
A. E. Bennett
Director of Marketing

C. G. Chenier
Associate Director of Marketing (Montreal)

W. H. Gleed
Associate Director of Marketing (Toronto)

General Sales Division
D. K. Shales
Director of Marketing

J. A. Fowler
Associate Director of Marketing

Group Benefits Division
W. D. Jackson
Director of Marketing

Medical
J. S. Winder, M.D.
Medical Director

J. B. Walker, M.D.
Associate Medical Director

Mortgage
R. D. Abercromby
Mortgage Executive

Personnel
W. A. McCoy
Personnel Executive

Securities
G. A. Gloin
Securities Executive

Staff Health
N. J. England, M.D.
Staff Health Physician

Underwriting and Issue
M. E. Comfort
Underwriting Executive

Regional offices

London Life maintains a network of 129 offices across the nation. These offices provide service for both individual and group coverage, and for the administration of London Life's extensive mortgage operations.

British Columbia
New Westminster
Vancouver (8 offices)
Victoria

Alberta
Calgary (6 offices)
Edmonton (4 offices)
Lethbridge
Medicine Hat

Saskatchewan
Moose Jaw
Regina
Saskatoon

Manitoba
Winnipeg (5 offices)

Ontario
Barrie
Belleville
Brampton (2 offices)
Brantford
Brockville
Cambridge
Chatham
Cornwall
Guelph
Hamilton (6 offices)
Kingston (2 offices)
Kirkland Lake
Kitchener (2 offices)
London (5 offices)
Mississauga
Niagara Falls
North Bay
Orillia
Oshawa (2 offices)
Ottawa (5 offices)
Peterborough
Pickering
St. Catharines (3 offices)
St. Thomas
Sarnia
Sault Ste. Marie
Stratford
Sudbury (2 offices)
Thunder Bay
Timmins
Toronto (16 offices)
Welland
Windsor (2 offices)
Woodstock

Quebec
Montreal (17 offices)
Rouyn-Noranda
Sherbrooke
St. Hyacinthe
Val d'Or

New Brunswick
Moncton (2 offices)
Saint John

Nova Scotia
Cape Breton
Dartmouth
Halifax (3 offices)

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